Testimony before the Joint Committee on Public Health
In re: HB 6088 (Proposed) AAC Dedicated Alcohol Tax to Fund Substance Abuse Treatment Programs

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I am testifying today in support of the concept put forth in proposed House Bill No. 6088, An Act Concerning A Dedicated Alcohol Tax to Fund Substance Abuse Treatment Programs. As a public health researcher with a focus on substance abuse prevention and a member of the Executive Committee of the Connecticut Coalition to Stop Underage Drinking, I have examined the problem of substance use within our State for the past nine years and have concluded that underage drinking is a sobering problem that is in need of immediate attention. A dedicated tax on alcohol is one measure that could be effective at reducing underage drinking in our state, however the proposed bill is narrowly focused on earmarking funds for treatment and doesn't take into account that that our state's beer taxes have not been increased since 1989 and over the last 18 years have been eroded by inflation.

Higher Alcohol Taxes Would Increase Prices and Reduce Alcohol-Related Problems

Research from the National Institute on Alcohol Abuse and Alcoholism (NIAAA) reports that increasing beer taxes effectively reduces alcohol problems.[1] Evidence is so strong on this matter that the National Academy of Sciences in *Reducing Underage Drinking: A Collective Responsibility* recommended that states increase alcohol taxes as one key approach to reduce underage drinking[2]:

> **Recommendation 12-7: Congress and state legislatures should raise excise taxes to reduce underage consumption and to raise additional revenues for this purpose. Top priority should be given to raising beer taxes, and excise tax rates for all alcoholic beverages should be indexed to the consumer price index so that they keep pace with inflation without the necessity of further legislative action.**
> (*Reducing Underage Drinking: A Collective Responsibility*, pg. 246)

Numerous studies have demonstrated other beneficial consequences of increasing alcoholic-beverage taxes, especially on beer:

- Higher beer taxes would likely lead to higher prices[3] and reductions in the quantity and frequency of drinking among youth,[4] who are among the most price-sensitive consumers.

- Higher beer taxes would reduce traffic-crash fatality rates, especially among young drivers,[5] and result in fewer cases of some types of crime.[6] For every one percent increase in the price of beer, the traffic fatality rate declines by 0.9 percent.[7]

- For every ten percent increase in the beer excise tax, the probability of severe violence towards children decreases by 2.3 percent.[8]

- According to researchers at the U.S. Centers for Disease Control and Prevention, a beer-tax increase of $0.20 per six-pack would reduce gonorrhea rates by 8.9 percent and syphilis rates by 32.7 percent.[9]

Public Opinion and Public Costs

Sixty-nine percent of Connecticut residents support a ten percent increase in the alcohol tax.[10] In a national survey, 82 percent of adults favored an increase of five cents per drink in the tax on beer, wine, or liquor to pay for programs to prevent minors from drinking and to increase the availability of alcohol treatment programs.[11] In surveys on alcohol excise taxes conducted in several states, results have consistently shown that between 76 and 80 percent of respondents either believe that increasing alcohol taxes is "good" or "acceptable,"[12] or support an increase in state alcohol excise taxes.[13]

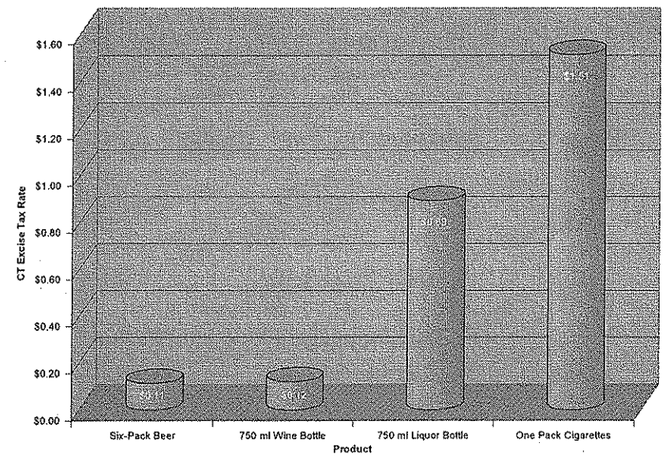
In 1998, the estimated economic cost of alcohol abuse in the U.S. exceeded $184 billion. That cost equals roughly $683 for every man, woman and child living in the U.S.[14] The cost to Americans of underage drinking *alone* totals nearly $62 billion.[15] In 2005, the cost of underage drinking has been estimated to be $621 million in Connecticut[16]. Each year, the federal government spends nearly $1.0 billion on alcohol prevention services for people of all ages, less than two percent of the annual cost of alcohol use by youth alone.[17]

States and their taxpayers, including those in Connecticut, bear a substantial portion of these costs. Connecticut residents spend more than $473 million on alcohol-related healthcare costs.[18] The average alcohol-related fatality costs the public $4.1 million: $1.3 million in monetary costs and $2.8 million in quality of life losses.[19] In 2005, the state reported 2,750 cases of gonorrhea, [20] a number that would decline with an increase in alcohol taxes.

Alcohol and Tobacco Tax Comparison

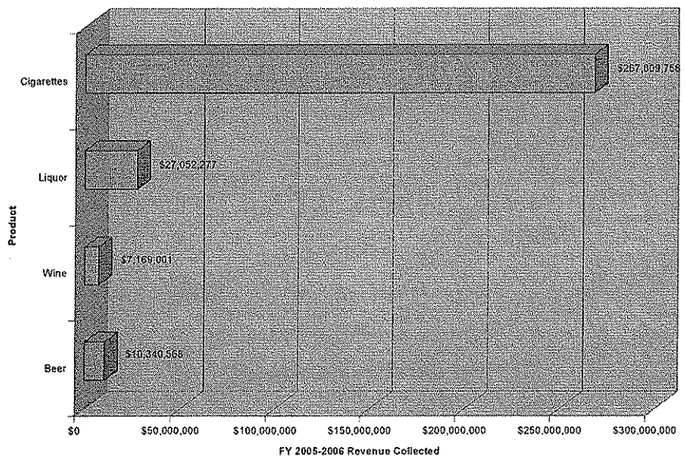
Governor Rell has proposed raising taxes on cigarettes from $1.51 per pack to $2.00 per pack[21]. At its current rate, however, the excise tax on a pack of cigarettes in Connecticut dwarfs the tax rates for a six-pack of beer and a bottle of wine, and is 70 percent greater than the tax on a bottle of liquor (Figure 1).

Figure 1. Connecticut Tax Rates per Common Purchase Units for Alcoholic Beverages and Cigarettes[22]



Revenues collected from alcohol and tobacco excise taxes in the state also vary greatly. At $267.8 million, revenues from the cigarette excise tax totaled more than six times the revenues from alcohol excise taxes ($44 million) in FY 2005-2006 (Figure 2).[21] Although the cigarette tax contributes significantly to state revenues, less than 19 percent of adults smoked cigarettes in 2003.[23] By contrast, almost two-thirds of people over the age of 18 consumed alcohol in 2005;[24] yet alcohol taxes make up much less of the state's revenue collections.

Figure 2. Connecticut FY 2005-2006 Alcohol Excise Tax Revenues and Cigarette Excise Tax Collections[22]



Effects of Inflation on Tax Rates and Revenue

Generally, alcohol excise tax rates have not increased to compensate for the effects of inflation. As a result, real tax rates have declined over most of the post-war period. This erosion of real tax rates has contributed to overall declines in real revenues and real beverage prices over time. Inflation has decreased the value of alcohol excise taxes in Connecticut since they were last raised in 1989.

The current state excise tax on beer, at $0.20 per gallon, now has a real value of only $0.12 per gallon; the $0.60 per gallon tax on wine is now worth $0.37 per gallon; and the $4.50 per gallon rate on distilled liquor is now worth $2.74 per gallon. Indexing for inflation since 1989, the tax on beer, now $0.20 per gallon, would be $0.33 per gallon today; on wine, currently $0.60 per gallon, the tax would be $0.98 per gallon; and on liquor, now $4.50 per gallon, it would be $7.32 per gallon. Had the tax rates on beer, wine, and liquor been indexed for inflation since 1989, the state would have collected more than $73 million in revenues in 2005, an increase of some $28 million (Table 1).

Table 1. Connecticut Alcohol Tax Rates and Revenues Have Eroded, Due to Inflation

Product	Current Tax Rate (per gallon)	FY 2005-2006 Revenue	Current Tax Rate if Adjusted for Inflation (per gallon)	FY 2005-2006 Revenue if Tax Indexed for Inflation since 1989
Beer	$0.20	$10.34 million	$0.33	$17.06 million
Wine	$0.60	$ 7.17 million	$0.98	$11.71 million
Liquor	$4.50	$27.28 million	$7.32	$44.37 million
Total		**$44.79 million**		**$73.14 million**

Connecticut's Alcohol Excise Taxes Compared to Other States

Connecticut's beer and wine tax rates fall below the average tax rates of all U.S. states, while the liquor tax exceeds the state average (Table 2). Connecticut's beer tax rate per gallon is also below the average rate found in New England ($0.22/gal)[25]. Historically, the alcohol tax rates in the Northeast are low compared to the rest of the country and our rates of alcohol use are higher[26]. The highest alcohol state excise rates for all types of beverages are found in Alaska while Wyoming, Louisiana, and Maryland and Washington DC have the lowest excise taxes on beer, wine, and liquor respectively.

Table 2. Connecticut's Alcohol Excise Tax Rates Compared to the U.S. Average[27], New England Average, and the Lowest and Highest States[25]

Product	Connecticut (per gallon)	State Average (per gallon)	Lowest Tax [State] (per gallon)	Highest Tax [State] (per gallon)
Beer	$0.20	$0.26	$0.02 [WY]	$1.07 [AK]
Wine	$0.60	$0.78	$0.11 [LA]	$2.50 [AK]
Liquor	$4.50	$3.92	$1.50 [MD & DC]	$12.80 [AK]

* - Excludes NH which has direct government control of wine sales in state stores. Revenue is generated from various taxes, fees, and net profits.

Tax Increase Proposals

Although the proposed bill does not specify any specific increase in the alcohol excise tax nor did it specify the proportion of funds dedicated to alcohol treatment providers. I have calculated Connecticut's potential revenue gains and changes in consumption estimated from various proposals to increase alcohol excise tax rates starting with a minimal 10% increase in taxes to a dime per drink increase as shown in Table 3. A standard drink serving is defined as 12 ounces of beer, 5 ounces of wine, and 1.5 ounces of liquor[28].

Table 4 illustrates the estimated rise in prices for each type of alcohol-tax increase. For instance, an average consumer who purchases a six-pack of beer a week would likely spend about one cent more per week on a six-pack under a 10% increase proposal. Under the most aggressive tax-increase proposal, a dime per drink, the price of a six-pack per week would rise by about $0.65. Those would be tiny additions, especially considering that the average Connecticut resident (including heavy drinkers who consume most of the beer) drinks no more than a six-pack of beer per week[29]. In fact, 40.6 percent of Connecticut residents do not drink at all.[30]

Table 3. Projected Revenues and Consumption Changes Due to Alcohol Tax-Increase Proposals

Increase Proposal	Product	Current Tax Rate (per gallon)	New Tax Rate (per gallon)	Projected Revenue Increase for Full Fiscal Year	Projected Revenue	Projected Consumption (millions)	Percent Decrease in Consumption
10% Increase	Beer	$0.20	$0.22	$1.0 million	$11.4 million	51.7 gallons	-0.07 %
	Wine	$0.60	$0.66	$0.71 million	$7.9 million	11.9 gallons	-0.06 %
	Liquor	$4.50	$4.95	$2.6 million	$29.7 million	6.0 gallons	-0.13 %
	Total			$4.31 million	$49 million	69.6 gallons	
Penny per Drink	Beer	$0.20	$0.31	$5.6 million	$16.0 million	51.4 gallons	-0.41 %
	Wine	$0.60	$0.92	$3.8 million	$11.0 million	11.9 gallons	-0.30 %
	Liquor	$4.50	$5.35	$5.0 million	$32.1 million	6.0 gallons	-0.25 %
	Total			$14.4 million	$59.1 million	69.3 gallons	
Adjusted to Inflation	Beer	$0.20	$0.33	$6.6 million	$16.9 million	51.5 gallons	-0.48 %
	Wine	$0.60	$0.98	$4.5 million	$11.7 million	11.9 gallons	-0.36 %
	Liquor	$4.50	$7.32	$16.6 million	$43.6 million	5.9 gallons	-0.82 %
	Total			$27.7 million	$72.2 million	69.3 gallons	
Double Current Rate	Beer	$0.20	$0.40	$10.2 million	$20.5 million	51.3 gallons	-0.75 %
	Wine	$0.60	$1.20	$7.1 million	$1.4 million	11.8 gallons	-0.57 %
	Liquor	$4.50	$9.00	$26.3 million	$53.4 million	5.9 gallons	-1.31 %
	Total			$43.6 million	$75.3 million	69.0 gallons	
Nickel per Drink	Beer	$0.20	$0.73	$26.7 million	$36.9 million	50.7 gallons	-1.98 %
	Wine	$0.60	$2.20	$18.7 million	$25.9 million	11.8 gallons	-1.51 %
	Liquor	$4.50	$8.77	$25.0 million	$52.1 million	5.9 gallons	-1.25 %
	Total			$70.4 million	$114.9 million	68.4 gallons	
Dime per Drink	Beer	$0.20	$1.27	$52.7 million	$63.0 million	49.6 gallons	-3.99 %
	Wine	$0.60	$3.80	$36.9 million	$44.0 million	11.6 gallons	-3.01 %
	Liquor	$4.50	$13.03	$49.3 million	$76.4 million	5.8 gallons	-2.49 %
	Total			$138.9 million	$183.4 million	67.0 gallons	

In conclusion, Connecticut's excise tax on beer is far too low. It is dwarfed by the tax on cigarettes. It is below the national average and the rate found in New England. Over the last 18 years, it has been eroded by inflation leading to the relative decline of alcoholic-beverage prices. Artificially low prices are not a boon to consumers or public health. Cheaper alcoholic beverage prices lead to higher consumption and more alcohol-related problems. Raising taxes on these products can help reduce consumption while providing funding for much-needed prevention and treatment programs. And if the tax was designed to be indexed annually for inflation as suggested by the National Academy of Sciences, no further legislative action is necessary to maintain the protective and positive effects for many years to come.

Table 4. Price Increases for Various Tax-Increase Proposals

Increase Proposal	Product	Price Increase* per	
		Purchasing Unit (six-pack of beer, 750 ml bottle of wine or liquor)	**Standard Drink** (12 oz. beer, 5 oz. wine, 1.5 oz. liquor)
10% Increase	Beer	$0.01	$0.002
	Wine	$0.01	$0.002
	Liquor	$0.09	$0.005
Penny per Drink	Beer	$0.07	$0.01
	Wine	$0.05	$0.01
	Liquor	$0.18	$0.01
Double Current Rate	Beer	$0.12	$0.02
	Wine	$0.10	$0.22
	Liquor	$0.96	$0.06
Nickel per Drink	Beer	$0.32	$0.05
	Wine	$0.27	$0.05
	Liquor	$0.91	$0.05
Dime per Drink	Beer	$0.65	$0.11
	Wine	$0.55	$0.11
	Liquor	$1.82	$0.11

*Includes a 7.5% mark-up on the tax increase[3].

NOTES:

For table 3, I used the following equation to calculate the projected volume consumed and revenue generated from potential increases in Connecticut's alcohol excise tax rate:

$$V1 = Vo\ (1 + PE\ (PI/CP))$$

Where: V1 = projected volume consumed
Vo = CT DRS FY 2005-2006 volume consumed
PE = price elasticity
PI = price increase (including a 7.5 percent mark-up)
CP = current price

The price increase assumes a 7.5 percent mark-up (a conservative estimate) on the tax increase[3]. The current price (CP) was obtained by calculating that an average six-pack of beer costs $4.86 or $8.65 per gallon, average bottle of wine costs $6.77 per 750-ml bottle or $34.23 per gallon, and average bottle of liquor costs $21.89 per 750-ml bottle or $110.53 per gallon. These numbers represent total retail sales of beer (wine or liquor) divided by the total volume of beer (wine or liquor) sold in the U.S based on data reported by *Adams Beer Handbook 2002, Adams Wine Handbook 2002* and *Adams Liquor Handbook 2002*. This same method can be localized using Connecticut data, if available.

For this testimony, I used a price elasticity of -0.30, from a study in NIAAA's 10th Special Report to Congress[1]. Price elasticity shows the relationship between price changes and consumption. Although the study applied this value specifically to beer consumption and revenue, I used this value for all beverage types, to provide conservative estimates of the projected revenues. Applying different elasticities to wine and liquor would result in slightly different estimates of consumption decreases and revenue gains.

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